

TEACHERS' RETIREMENT BOARD
SUBCOMMITTEE ON CORPORATE GOVERNANCE

SUBJECT: Proxy Disclosure-Update

ITEM NUMBER: 5

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: December 4, 2002

INFORMATION: X

PRESENTER(S): Janice Hester-Amey

Executive Summary

At the last meeting, staff was directed to report on CalSTRS actions regarding the SEC's proposed rule that would require an investment adviser that exercises voting authority over client proxies to disclose its voting records. At the end of October, CalSTRS sent a letter to the SEC endorsing the proposed rule. In mid-November, CalSTRS sent a letter to its public equity managers encouraging their endorsement of the rule and application of the practice.

Staff will provide an update on the status of the 403(b) relationships and this issue at the meeting. Sample copies of the letters to the SEC and the public equity managers are attached to this item and labeled, Attachment 1.



November 13, 2002

Dear :

The California State Teachers' Retirement System (CalSTRS) has recently registered its support for the Security and Exchange Commission's (SEC) recently announced proposed new rule and rule amendments under the Investment Advisers Act of 1940. The Commission's proposal would require an investment adviser that exercises voting authority over client proxies to adopt and implement policies and procedures that are designed to represent the best interests of the clients and to disclose to the clients, information on these policies and procedures. The investment adviser would also be required to retain certain records relating to proxy voting. Chapter 1360, Statutes of 1988 (SB-1600, Garamendi) already requires trustees in California, with the power to vote on others behalf, to maintain a record of the vote and to disclose the voting information to the beneficiaries. CalSTRS has long practiced this policy and believes that it adds transparency to our operations.

CalSTRS believes that it is important for investment advisers to be held to the same fiduciary standards as our trustees. We recognize that the disclosure will properly go to clients, but we also believe that the public disclosure of the votes is good practice and encourage your firm to subscribe to this practice and to register its support with the SEC for the proposed new rule. As you know, the capital markets have been suffering from a lack of confidence in their operations; we believe that heightened disclosure will help restore that confidence. I am enclosing a copy of CalSTRS submission to the SEC on this matter for your perusal.

I am very interested in hearing your thoughts on this matter. Should you wish to discuss this letter, please feel free to call on me or Elleen Okada at (916) 229-3721.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher Ailman".

Christopher Ailman
Chief Investment Officer

cc: Elleen Okada

Attachment



October 25, 2002

Board Members

Gary Lynes, Chair

Paul Krasnow

Marty Mathiesen

Karen Russell

Jay Schenirer

Carolyn Widener

Secretary, Securities and Exchange Commission
450 Fifth Street N.W.
Washington, DC 20549-0609

Dear Secretary Katz:

RE. File No. S7-38-02
17 CFR Part 275, Release No. IA-2059
RIN 3235-AI65

Ex Officio Members

Superintendent of Public Instruction
Delaine Eastin

State Controller
Kathleen Connell

State Treasurer
Philip Angelides

State Director of Finance
B. Timothy Gage

Chief Executive Officer
Jack Ehnes

This letter is sent to you to register the California State Teachers' Retirement System's (CalSTRS) support for the Commission's recently announced proposed new rule and rule amendments under the Investment Advisers Act of 1940. The Commission's proposal would require an investment adviser that exercises voting authority over client proxies to adopt and implement policies and procedures that are designed to represent the best interests of the clients and to disclose to the clients, information on these policies and procedures. The investment adviser would also be required to retain certain records relating to proxy voting.

CalSTRS had assets in excess of \$88 billion as of September 30, 2002. Our domestic equity assets represented almost \$32 billion or 36% of this total, while international equities accounted for over \$16 billion or 18% of the total fund. CalSTRS has long believed that proxies are plan assets and that they should be treated with the same care, diligence and observation of fiduciary duty as other plan assets. It is important to note that our guidelines are designed to benefit the underlying shareholder in the company, our plan participants and beneficiaries.

As of June 30, 2002, the fund's fiscal year, CalSTRS had voted on over 7,000 ballot issues, representing the proxies of 2,700 domestic companies. The proxies are voted according to guidelines that are reviewed regularly by both the staff and an arm of the Teachers' Retirement Board's (TRB) Investment Committee, the Subcommittee on Corporate Governance, which was established back in 1985.

Securing the financial future and sustaining the trust of California's educators.

California State Teachers' Retirement System, Executive Office
7667 Folsom Boulevard, Post Office Box 15275, Sacramento, CA 95851-0275
(916) 229-3706 www.calstrs.ca.gov

Mr. Jonathan G. Katz
October 25, 2002
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We believe that it is important for investment advisers to be held to the same fiduciary standards as our trustees. We recognize that the disclosure will properly go to clients in this case and not to the public, as it does with funds such as CalSTRS, but we believe that beneficiaries/clients have as much right to know how their proxies are being voted as they do how their monies are being invested. In addition, we believe that by leveling the playing field, the overall discourse on this issue will be heightened and the prevailing standards should be more representative of shareholder and ultimately, beneficiary and client interests.

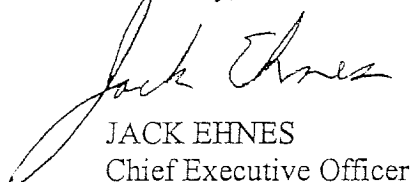
The investment advisers, through their discretionary authority over almost \$19 trillion of assets and the proxy voting authority that is appurtenant to those assets are in an enormous position to influence the governance of corporations. At a time when our practice of capitalism is under scrutiny due to the litany of scandals on the corporate side, it is important for the millions of small investors who accumulate wealth through investments in mutual funds and plans like CalSTRS, to know that their chosen stewards will exercise the governance rights given that are granted along with the purchase of a company's security.

CalSTRS also believes that the Commission's proposal will do much to remove the appearance of a conflict of interest between the investment advisers and their clients. These investment advisers or their affiliates provide a range of services (asset management, administer employee benefit plans, provide brokerage, underwriting, insurance and/or banking services) to the companies that are often in the portfolios they manage for individual investors. CalSTRS believes that the Commission's proposal will safeguard the investment advisers and their clients from the potential harm that may arise in relationships with the portfolio companies.

Not to be one-sided, we realize that conflict of interest situations may also arise when an investment adviser manages assets for all types of clients. The adviser may feel pressured to vote for a certain candidate in a proxy contest because of the relationship, not because of the underlying merits of the candidacy. The Commission's proposal would also address other conflicts. For example, an adviser may have personal relationships with director candidates, proxy contest members or may even have a personal interest in the outcome of an issue that is in the shareholders' hands. In short, we believe that the conflicts that the Commission pointed out in its report almost 30 years ago are alive and well, and that this proposal would go a long way towards exposing and thereby, removing such conflicts.

Should you wish to discuss this letter or need further information on CalSTRS, I will be happy to accommodate you. I am enclosing my card for your easy reference.

Sincerely,


JACK EHNES
Chief Executive Officer

Enclosure